

Report of the auditor-general to the Limpopo provincial legislature and the council on Elias Motsoaledi Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Elias Motsoaledi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Leased assets

6. I was unable to obtain sufficient appropriate audit evidence that leases for the current period had been correctly classified in terms of SA Standards of GRAP 13 *Leases*, due to the status of the accounting records and the non-submission of information in support of these leases. I was unable to confirm the classification of the leases by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R729 129 354 (2014: R694 686 541), finance lease obligations and operating lease expenditure stated at R10 159 911 (2014: R3 792 972), depreciation and amortisation stated at R32 042 158 (2014: R32 548 462), in the financial statements was necessary.

Opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014

Material losses and impairments

10. As disclosed in note 16 to the financial statements, material impairments to the amount of R31 172 771 to provide for consumer debtors, where recovery of debts is doubtful.

Material under spending of votes

11. As disclosed in the appropriation statement, the municipality has materially under spent the budget on all 8 votes to the amount of R21 519 101.

Unauthorised expenditure

12. As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R11 202 663 as a result of exceeding the total amount appropriated for a vote in the approved budget.

Irregular expenditure

13. As disclosed in note 51 to the financial statements, irregular expenditure amounting to R22 748 812 (2014: R25 224 038) was incurred as a result of the municipality procuring goods and services without following supply chain management requirements.

Additional matter paragraphs

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development priority 3: Spatial rationale on pages x to x
 - Development priority 1: Basic services and infrastructure on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned

development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected development priorities are as follows:

Spatial rationale

Usefulness of reported performance information

Measurability of indicators and targets

23. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 7% of the indicators were not well defined.
24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 7% of the indicators were not 7% verifiable.
25. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 7% of the targets were not specific.
26. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 7% of the targets.
27. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 7% of the targets were not time bound.
28. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

29. The FMPPI requires auditee to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Basic service delivery and infrastructure

Measurability of indicators and targets

30. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 5% of the indicators were not well defined.
31. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 7% of the indicators were not verifiable.
32. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 7% of the targets were not specific.
33. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 9% of the targets.
34. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 9% of the targets were not time bound.
35. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 5% of the indicators were not well defined.
36. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 7% of the indicators were not verifiable.
37. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

Additional matters

38. I draw attention to the following:

Achievement of planned targets

39. Refer to the annual performance report on pages xx to xx and xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 23 to 38 of this report.

Adjustment of material misstatements

40. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for development priority 1: Spatial rationale. As management did not correct the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

41. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

42. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, expenditure, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

43. Sufficient appropriate audit evidence could not be obtained that all contracts or quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as certain documentation for awarded contracts could not be provided for audit.
44. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by *Supply Chain Management (SCM) regulation 19(a)* and deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
45. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
46. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
47. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the code of conduct for staff members issued in terms of the MSA.
48. Prospective providers were not invited to apply for listing in the list of approved prospective providers at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Human resource management and compensation

49. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of the MSA.

Expenditure management

50. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

Revenue management

51. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

Asset management

52. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Internal control

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

54. There was a lack of adequate monitoring controls over development and implementation of internal policies and processes, human resources management for the maintenance of job descriptions, vacancy management and performance management as well as the effective implementation of action plans.

Financial and performance management

55. There was a lack of adequate controls and management skills over record keeping with regard to the maintenance and retrieval of information.
56. There was a lack of adequate daily and monthly processing and in performing proper reconciliations and recording of transactions.
57. Regular and accurate financial and performance reporting for the prevention and detection of misstatements to the financial statements does not take place.
58. There was a lack of adequate controls over compliance monitoring and information technology systems that is affecting program change, user account service continuity, processing of EFTs and security management.

Governance

59. The audit committee and internal audit did not adequately fulfil their respective functions as a result of ineffective monitoring and capacity constraints.

Other reports

Investigations

60. A service provider was appointed to perform an investigation to obtain appropriate corrective action and internal control improvements to be considered by the municipality. The investigation also included the sale of 28 municipal properties and review of issues raised in my 2013-14 audit report. The report was issued in July 2015 and is under consideration by the council.
61. An investigation was performed by the Department of Transport on non-compliance with "Minimum requirement for Registration and Retention of Grading for Driving Licenses Testing Centres" was conducted. Management is conducting disciplinary hearings for the employees that were implicated in the report.

*Auditor General
Polokwane*

30 November 2015



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